Assicurazioni Generali S.p.A. - (G.MI)

Sector: Financial services

Price: 13.16€

Market Cap: 20.66B€

P/E ratio: 12.61

Dividend: 0.5€ yearly – 4.05%

KEY INFORMATIONS

Founded in 1831, very old and very experienced

In the last years the company expanded their market share in Eastern Europe countries and are expanding in China and India

Net value of over 26B€, market cap is 20.65B€, trading at almost 26% lower price than the fair value

Revenue is big and they generate a high free cash flow, allowing them to keep debt under control and grow their market share and expand the business

Last year they expanded hugely the business, they raised the earnings by 29.5%

Population ageing helps financial and insurance companies to keep their profitability high and raise their revenues

3rd biggest private insurances company by revenue

Very good marketing and management strategies

STRENGHT POINTS

The company is very old and very experienced, they have grown their business during almost 2 centuries, and have survived 2 world wars and a lot of tough times, they gained a lot of experience and know how to guide the sector.

Top insurance company in Italy, and very good presence in all Europe, the company recently started expanding in Eastern markets especially China and India

Diversified business in both insurance and financial sector, help them mitigate their risk and help maintain steady profits even during hard times when the competitors struggle.

80.000 Employees, distributed in 20 countries make their local presence very good, giving them a good advantage over the competitors, which focus more on internet services. At the same time, the company makes wide use of telemarketing and internet to reach as much customers as they can.

The company has always focused on choosing well their customers, keeping their risk low, and this strategy helps them maintain their margins and keep the business in good financial shape.

The price is very low, it's one of the lowest of the last 5 years, this is a unique chance to buy a very interesting and good looking company at a low price, preserving the value of the investment, with a very low risk and a very good potential return.

They are buying big chunks of Cattolica Assicurazioni, expanding their business even more. At the moment, they own 24,4% of Cattolica, while Berkshire Hathaway (owned by Warren Buffett) only own 9% of it.

FINANCIALS

9.21B€ cash – 5.87€ par share

13.5B€ retained earnings give them a good amount of money to invest or to use in any expansion they could want to do.

16.65$ book value par share – book value is the value of all assets, without looking at intangible ones, so it's the value of things they can sell and just shut down the business.

If we add the book value and the cash we get 22.52€ which is close to the fair value of the a company's share, 71,12% higher than the actual price of 13.16€. This shows a very good potential return in a decent amount of time.

Dividend is an interesting one, not huge but the payout ratio is kinda low, only 43.10% giving them a lot of room to raise the dividend or expand the business. Their cashflow is very strong and money moves fast, the management did a great job at efficiently using the money.

Italian companies use a different dividend style, instead of growing it year by year they decide it every year and can raise it or lower it at any moment. This brings uncertainty over the dividend, but if we look at last 5 years average it's 5.24% so higher than the actual one. This will also help them during harder years because they'll just retain more money and will reduce dividend but keep the business on track without using additional debt. The next year dividend is expected to be around 7.77%, this year was affected by the pandemic but the next one will be a lot easier and more profitable.

All the financial ratios are fine, debt is under control, assets are more than enough to cover liabilities, current and quick ratios are fine.

POTENTIAL THREATS

The slow pace of economic recovery in Germany and other Euro zone economies can reduce the demand. Since they're diversifying in new countries, this shouldn't be a very big problem.

Sector is highly competitive and most of the companies have to lower their profit margins in order to acquire more customers, and this raise their risk. It's very important for insurance and financial companies to chose carefully their customers in order to have a low number of policy benefits. They had a good control over this until now.

Italian companies don't use share repurchase programs usually, so the number of outstanding shares is likely to remain the same. This isn't a problem as long as the company makes good use of the money.

Price is already very interesting, it's a good stock to use a dollar average strategy and buy on monthly basis, this will help you manage better the risk and gain more over the long term. The sooner you start the better, to not lose the chance to buy at low prices.

Potential downside is decent, the price can go down in the short term, but I dont expect it to go lower than 11€ (16% of price drop) but over the long term it will tend to reach its fair value price.

We can expect a 30% return in the first year, with a return of 25% a year for the next years for at least 5 years. This timeline will allow them to mature and the price will move towards 35€, which is the future Ben Graham discounted growth value.

You should keep them for at least a couple years, or at least until they show a minimum 40/50% profit, based on what your long term goals are. Dividend will be distributed once a year, reinvest the dividends if you can, it will help you grow faster.

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